

## PDF hosted at the Radboud Repository of the Radboud University Nijmegen

The following full text is an Author's version preprint which may differ from the publisher's version.

For additional information about this publication click this link.

<https://repository.ubn.ru.nl/handle/2066/233643>

Please be advised that this information was generated on 2021-11-04 and may be subject to change.

## Ecosystem orchestration: legitimizing towards internal and external stakeholders

In nascent ecosystems, where value creation and capture norms are not yet formed or widely accepted, aspiring leaders attempt to secure strategic positions that enable them to capture disproportionate value. This is difficult, however, as they need to simultaneously adhere to the expectations set upon them by their stakeholders. Especially due to a high degree of interdependence between ecosystem participants (Jacobides et al., 2018) and divergence of interests and perspective (Adner, 2017), this process tends to be fraught with challenges, especially for established firms such as large MNEs beholden to a variety of internal and external stakeholders. Scholars studying how incumbent firms respond to threatening innovations elsewhere in their ecosystems (e.g. Bitektine et al., 2020; Khanagha et al., 2020; Thomas & Ritala, 2021) assert that perceived legitimacy of ecosystem initiatives - such as partnering up with those innovators for collaborative value creation and capture - as well as the firms and individuals pushing those initiatives is necessary for initiative success.

Facing a “legitimacy vacuum” (Zuzul & Edmondson, 2017, p. 304), entry into nascent ecosystems requires conforming to the expectations of the other ecosystem actors while the actual value of the initiative for those actors is unlikely to materialize in the short-term future. At the same time, managers in established firms need to convince decision-makers and internal stakeholders to allocate financial and other organizational resources to nascent ecosystem initiatives that are unlikely to provide substantial value capture opportunities in the foreseeable future. While ecosystem actors often seek assurances about collective interests of the ecosystem actors (e.g. through openness), internal stakeholders are sensitive to the alignment of the initiative with overall objectives and priorities of the firm.

While we have a substantial understanding of external stakeholder dynamics when it comes to legitimacy, this focus on *internal stakeholders* with diverse expectations is missing in prior work. To this end, we ask *how do managers legitimize their ecosystem initiatives to both internal and external stakeholders over time?* To investigate this, we use data from a longitudinal field study of a major European IT company, Atos, that has attempted to enter the nascent fintech ecosystem and secure a central, orchestrating role. This investigation, then, focuses on collaborative, interfirm innovation as the ecosystem initiative in question. Based on a multi-year participatory study including formal and informal interactions with senior and middle managers in the firm as well as connected actors in the ecosystem, we note that the managers leading Atos’ fintech engagement program had to navigate a combination of internal and external pressures through temporally shifting and bifurcated actions that have as of yet not been explained well by prior research.

### Conceptual Background

#### Legitimacy

Institutions and the patterns they proliferate persist even through large-scale change. A manifestation of this is legitimacy and its process form, legitimization. Legitimacy in this paper uses Deephouse et al.’s (2017, p. 32) definition: “the perceived appropriateness of an organization to a social system in terms of rules, values, norms, and definitions.” Legitimacy and legitimization activities can occur at various levels: within firms, between firms, and between fields of firms (Aldrich & Ruef, 2006). In our study, we focus on the former two since the actions of individuals are most apparent at and within the boundaries of firms. Furthermore, as the rules, norms, and so on applicable in a highly technological ecosystem generally follow the progress of technological innovation, legitimacy criteria as they pertain to such can change over time and the ways for a firm to achieve, maintain, and manage legitimacy change over time as well.

#### Orchestration

An important aspect of orchestration, or where a central firm creates and captures value using the offerings of other firms (Dhanaraj & Parkhe, 2006), is that the orchestrating firm needs to gather a series of complementors to whom they must convey that what they are doing is legitimate. These terms and dynamics are highly similar to platform ecosystems, where recent literature has shown that the steps

## Ecosystem orchestration: legitimizing towards internal and external stakeholders

towards accumulating legitimacy with external stakeholders are slippery (Khanagha et al., 2020; Ozalp & Cennamo, 2017). Participants must conform to socially constructed norms that can change over time in order to achieve legitimacy towards external stakeholders, as well as firm-wide norms that align with management objectives and client expectations to achieve legitimacy towards internal stakeholders. The latter group is essential, as it is often these parties that control resources necessary to enable the given initiative.

Extending on works like that of Paquin and Howard-Grenville (2013), the orchestrator is an interesting point of focus from a value capture point of view because the orchestrator identifies firms with offerings that, when combined, can create a new offering of ostensibly increased value (Dhanaraj & Parkhe, 2006). These values and configurations of firms must adapt to legitimacy standards which might change over time, necessitating dynamic orchestration strategies (REF - Blazevic) that must also remain aligned between orchestrated components.

From a value creation perspective, external stakeholders such as the complementors meant to be orchestrated must be convinced that the time and resources they will dedicate to the hub firm's endeavor will be worth it. Relatedly, internal stakeholders must be convinced that the return will be greater than the resources they contribute. These dialogues of persuasion go further than just profitability: they involve acceptability and the belief that the orchestration venture will be perceived as legitimate by others inside and outside of the ecosystem. Especially when the firms to be orchestrated are startups, where resources are already stretched thin, this is a difficult campaign for orchestrating managers to win.

### Research Site

This research project involves close collaboration with an incumbent firm, Atos, and specifically its Alpha Team industry directors, the core team in charge of handling financial service client accounts as well as Atos' engagement with fintechs. Atos has a long history in the ecosystem and, in the modern age, has typically offered IT and digital transformation solutions to firms in various ecosystems - financial services included. However, the firm has also recently undertaken a significant effort to verticalize the solutions it can offer, thus forcing Alpha Team to lobby for resources and support within the firm (internal stakeholders) to build outward-facing initiatives that it can use to then garner support from other ecosystem participants (external stakeholders) in pursuit of innovative services it can offer to clients.

Additionally, we have worked closely with the founders of TechQuartier, a startup incubator in Frankfurt, Germany with a strong fintech presence. Atos developed a partnership with this incubator for reasons we will explain in the full paper, but it became an important space for observational data collection. This hub is a gateway to many dozens of fintechs, and the collection of them form a network managed by the founders. This management involves the control of entry as well as orchestration of collaborative ties, but the fintechs are also free to build their own partnerships - such as with outside parties that enter the space.

### Data Collection

Data collection for this research began in August 2019. Our primary window into the firm was through Alpha Team's industry directors. The directors typically have between 10 and 20 years of industry experience, and are specialized in various fields related to finance: insurance, compliance, finance technology, et cetera. They are assigned stewardship over the accounts of the firm's largest clients, such as well-known banks, payment providers, and the like. With their specializations and the clout that comes from having close ties with large players in financial ecosystems, the directors are major actors in the research site, entrusted by their organization with a fair amount of autonomy to act on behalf of their organization within the ecosystem. These directors have made a concerted effort to build strong ties to the ecosystem of fintechs that has blossomed over the past six years in order to gain an understanding of and provide innovative solutions to their clients' needs.

Per Table 1, we have so far conducted fourteen semi-structured interviews with seven mid- to top-level directors and four interviews with fintechs and the incubator founders. We have also conducted

## Ecosystem orchestration: legitimizing towards internal and external stakeholders

one interview with a senior market analyst to give triangulating perspectives on the firm. These interviews range from 18 to 53 minutes. Some are recorded and transcribed, and others were rigorously notated, depending on interviewee preference. We intend to continue interviewing these informants until we have achieved theoretical saturation and no more new, significant data arise. Augmenting interview data are notes from sitting in weekly strategy meetings among the Alpha Team directorate. We have notated these meetings for relevant themes since August 2019 and will continue to do so through this paper's submission. Additionally, we have made use of various reports and regulatory documents from European institutions engaged in and overseeing the financial services ecosystem that we investigate.

### Data Analysis

This research is a qualitative investigation of a process concerning social evaluations. Close contact with actors in the field means capturing their narratives, both historical and ongoing, as they experience ecosystemic change and the challenges endemic to legitimization. Capturing these processes as experienced (Garud et al., 2018) involves a series of interviews with actors in the firm, those who assess their legitimization efforts as external stakeholders, and non-partisan observers who provide triangulating perspectives. At each step, the dialogues that happen between actors within the firm and those who observe them form co-created ideas of the firm's collective legitimacy. Engaging in ethnographic methods as the actors engage in relevant legitimization activities will shed light on the peripheral activities necessary to answer how managers legitimize their innovation activities to various stakeholders.

As laid out, process is an inevitable instrument of this investigation. Organization scholars (Langley, 2007; Van de Ven & Poole, 2005) have followed ancient scholars like Heraclitus and Democritus among others in establishing a weak and strong process view for organization studies. We use a weak process view in this study, where organizations are more or less stably identifiable across time. Process, then, comprises the multiplicity of interactions between them that are necessary for them to remain in action (Langley, 2007). We coded our interviews accordingly and episodically. The various reports and other regulatory documents we collected along the way allowed us to corroborate our findings via content analysis.

### Findings

Our main findings identify three phases of the orchestration campaign on which Atos managers embarked, shown in Figure 1. The first phase involved a reckoning with Atos' aging workforce and history as a horizontal, or industry-specific firm. This meant that Atos was generally perceived in the financial services field as a company that could provide trustworthy IT services and others in the realm of digital transformation, but it was not seen as the first stop for other ecosystem participants to innovate their own offerings.

In this first phase, Atos industry directors began to experiment with building modular solutions that could be recycled for other clients' solutions, thereby lowering the build cost of each. To do so systematically, the core team had to stand up a formal orchestration platform. This required financial resources, human resources, and so on under the primary control of other units in the firm to build. Thus, the industry directors had to begin a legitimacy-building campaign inside the firm to enlist help from these internal stakeholders, who had no prior performance of the orchestration strategy by which to judge the endeavor's future and expectations they should have for such. Simultaneously, the industry directors needed to pitch the orchestration strategy to outside firms and other external stakeholders - mainly fintechs but also clients and potential partners - as though it already existed.

The second phase begins to show where internal and external stakeholders could be made to work for each others' interests. The industry directors could leverage the enlisted external parties' support in order to build legitimacy with internal stakeholders. Populating the orchestration platform with fintech participants convinced internal stakeholders to lend their support to the endeavor, broadening its capabilities and allowing the core team to further their reach. This led to more instances where they could

## Ecosystem orchestration: legitimizing towards internal and external stakeholders

effectively show off what they were doing in order to attract even more ecosystem participants as external stakeholders, which further impressed internal stakeholders, and so on. This began an engine of sorts, which led to the third phase.

The third phase was where Atos actors used the orchestration platform to build legitimacy and architectures for further projects elsewhere in the organization. For the individuals and especially the leader of the team, this added visibility was an accolade of sorts that could be used to garner support from the top management team to embark on ventures that fell outside of the original jurisdiction of the team, allowing them further visibility throughout the organization. Outside the organization, the firm began to take part in larger projects which could only be done with the progress that was achieved with this orchestrated approach.

### Discussion and Conclusion

We discovered that actors on Alpha Team undertaking the initiative to catch their firm up with its competitors had to convince internal stakeholders that its innovation orchestration was already underway and vetted by knowledgeable, outside agents, while simultaneously convincing the external stakeholders whose buy-in it needed to power the system that it would be a lucrative endeavor in which to participate. We thus add to literature streams concerning value creation in ecosystems (Adner & Kapoor, 2010; Ceccagnoli et al., 2012; Cennamo & Santaló, 2019) by shedding light on internal stakeholders as important actors to consider and challenging the *de facto* assumption from these streams that firm managers who engage in novel ecosystem ventures can rely on *ex ante* internal stakeholder support.

Where these discourses happened in a temporal sense relative to each other also places focus in a story of narratives (adding to Garud, Gehman, et al., 2014; Garud, Schildt, et al., 2014; Kuratko et al., 2017) to actual and symbolic discourses. At times, symbolic discourses were meant to relay future states, which would conditionally become actual pending the stakeholder's support. This makes the orchestrating manager's role especially difficult, in that he or she must keep track of to whom what was promised and whether those expectations will be met on time and with any necessary, dependent support from others in place.

Time is a recurring theme in this work, and as a process work, we add to the broadening and respectable field of scholarship seeking temporal understandings of ecosystem innovation (Kouamé & Langley, 2018; Paquin & Howard-Grenville, 2013; Thomas & Ritala, 2021). Researching the actions of managers in a firm who are dealing with a rapidly shifting landscape allowed us to observe a fascinating diversity of environmental factors that these actors were made to deal with. We believe that insights from these are useful for process literature as well as for practitioners who find themselves in settings of accelerating change.

## References

- Adner, R. (2017). Ecosystem as structure: An actionable construct for strategy. *Journal of Management*, 43(1), 39–58.
- Adner, R., & Kapoor, R. (2010). Value creation in innovation ecosystems: How the structure of technological interdependence affects firm performance in new technology generations. *Strategic Management Journal*, 31(3), 306–333.
- Aldrich, H., & Ruef, M. (2006). *Organizations Evolving* (2nd ed.).
- Bitektine, A., Hill, K., Song, F., & Vandenberghe, C. (2020). Organizational Legitimacy, Reputation, and Status: Insights from Micro-Level Measurement. *Academy of Management Discoveries*, 6(1), 107–136. <https://doi.org/10.5465/amd.2017.0007>
- Ceccagnoli, M., Forman, C., Huang, P., & Wu, D. (2012). Co-Creation of Value in a Platform Ecosystem: The Case of Enterprise Software. *MIS Quarterly*, 36, 263–290.
- Cennamo, C., & Santaló, J. (2019). Generativity Tension and Value Creation in Platform Ecosystems. *Organization Science*, 30(3), 617–641.
- Deephouse, D. L., Bundy, J., Tost, L. P., & Suchman, M. C. (2017). Organizational Legitimacy: Six Key Questions. In R. Greenwood, C. Oliver, & T. B. Lawrence, *The SAGE Handbook of Organizational Institutionalism* (pp. 27–52). SAGE Publications Ltd.
- Dhanaraj, C., & Parkhe, A. (2006). Orchestrating Innovation Networks. *The Academy of Management Review*, 31(3), 659–669. <https://doi.org/10.2307/20159234>
- Garud, R., Berends, H., & Tuertscher, P. (2018). Qualitative approaches for studying innovation as process. *The Routledge Companion to Qualitative Research in Organization Studies*. London: Routledge, 226–247.
- Garud, R., Gehman, J., & Giuliani, A. P. (2014). Contextualizing entrepreneurial innovation: A narrative perspective. *Research Policy*, 43(7), 1177–1188.
- Garud, R., Schildt, H. A., & Lant, T. K. (2014). Entrepreneurial Storytelling, Future Expectations, and the Paradox of Legitimacy. *Organization Science*, 25(5), 1479–1492.
- Jacobides, M. G., Cennamo, C., & Gawer, A. (2018). Towards a theory of ecosystems. *Strategic Management Journal*, 39(8), 2255–2276. <https://doi.org/10.1002/smj.2904>
- Khanagha, S., Ansari, S., Paroutis, S., & Oviedo, L. (2020). Mutualism and the dynamics of new platform creation: A study of Cisco and fog computing. *Strategic Management Journal*.
- Kouamé, S., & Langley, A. (2018). Relating microprocesses to macro-outcomes in qualitative strategy process and practice research. *Strategic Management Journal*, 39(3), 559–581.
- Kuratko, D. F., Fisher, G., Bloodgood, J. M., & Hornsby, J. S. (2017). The paradox of new venture legitimization within an entrepreneurial ecosystem. *Small Business Economics*, 49(1), 119–140.
- Langley, A. (2007). Process thinking in strategic organization. *Strategic Organization*, 5(3), 271–282. <https://doi.org/10.1177/1476127007079965>
- Ozalp, H., & Cennamo, C. (2017). Platform Architecture, Multihoming and Complement Quality. *Academy of Management Proceedings*, 2017(1), 12276. WorldCat.org.
- Paquin, R. L., & Howard-Grenville, J. (2013). Blind dates and arranged marriages: Longitudinal processes of network orchestration. *Organization Studies*, 34(11), 1623–1653.
- Thomas, L. D. W., & Ritala, P. (2021). Ecosystem Legitimacy Emergence: A Collective Action View. *Journal of Management*, 0149206320986617.
- Van de Ven, A. H., & Poole, M. S. (2005). Alternative Approaches for Studying Organizational Change. *Organization Studies*, 26(9), 1377–1404.
- Zuzul, T., & Edmondson, A. C. (2017). The advocacy trap: When legitimacy building inhibits organizational learning. *Academy of Management Discoveries*, 3(3), 302–321. bth.

## Appendix

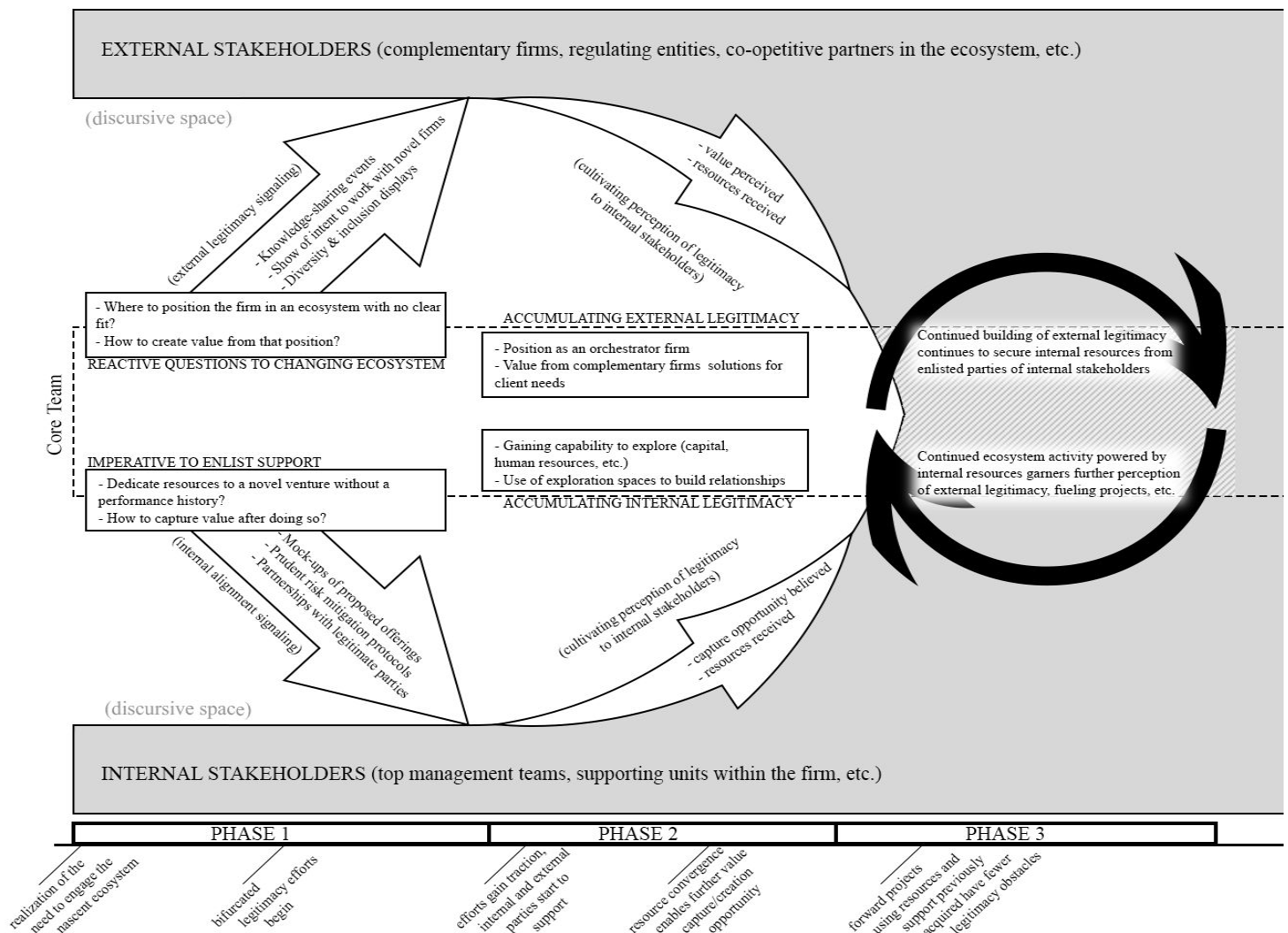


Figure 1: Model of the bifurcated legitimacy efforts.

# Ecosystem orchestration: legitimizing towards internal and external stakeholders

Interview data	<i>Role</i>	<i>Relevance</i>	<i>Interviews</i>
	A-Team firmr. Lead	- Oversaw team as it headed into ecosystemic change; - departed at the onset of PSD2	2
	A-Team Lead	- led team through the bulk of change; - position made redundant towards the end of data collection	3 + several informal chats
	A-Team Industry Directors	- Primary curators of client accounts (demands and solutions); - Research new fintechs and maintain existing fintech relationships	8 + several informal chats
	A-Team Marketing Director	- In charge of broadcasting firm messaging for public and internal consumption; - has a broad view of firm-wide strategic goals	2
	TQ Founders	- Oversee fintech incubator community - Accepted Atos sponsorship near inception of the hub	2
	Senior Level Market Analyst	- Able to provide a triangulating perspective, external of both Atos' and TQ's orbit - insights have strong consequences for firm valuation considerations	1
Participant Observation	<i>Type</i>	<i>Relevance</i>	<i>Tally</i>
	Weekly Atos strategy meetings	Allows an examination of the weekly routines, challenges, and expressions of the team VP and members	48
	Ad hoc Atos meetings	Allows an examination of how the firm reacts to challenges encountered in the formation of fintech partnerships, such as failure to deliver contract items	7
	Atos/TQ events	Allows for field observations of Atos & TQ cultures, as well as how actors interact with int. and ext. parties	3

Table 1. Data sources and relevance.